

GLENDALE CITY COUNCIL WORKSHOP SESSION
Council Chambers – Workshop Room
5850 West Glendale Avenue
March 14, 2006
1:30 p.m.

WORKSHOP SESSION

1. [FY 2006-07 BUDGET: 1ST WORKSHOP](#)

CITY MANAGER'S REPORT

This report allows the City Manager to update the City Council about issues raised by the public during Business from the Floor at previous Council meetings or to provide Council with a response to inquiries raised at previous meetings by Council members. The City Council may only acknowledge the contents to this report and is prohibited by state law from discussing or acting on any of the items presented by the City Manager since they are not itemized on the Council Workshop Agenda.

COUNCIL COMMENTS AND SUGGESTIONS

EXECUTIVE SESSION

1. **LEGAL MATTERS**

- A. The City Council will meet with the City Attorney for legal advice, discussion and consultation regarding the city's position in pending and contemplated litigation, including settlement discussions conducted in order to avoid or resolve litigation. (A.R.S. §§38-431.03 (A)(3)(4)).

Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, regarding any item listed on the agenda but only for the following purposes:

- (i) discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- (ii) discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03 (A)(2));
- (iii) discussion or consultation for legal advice with the city's attorneys (A.R.S. §38-431.03 (A)(3));
- (iv) discussion or consultation with the city's attorneys regarding the city's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation, or in settlement discussions conducted in order to avoid or resolve litigation (A.R.S. §38-431.03 (A)(4));
- (v) discussion or consultation with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations with employee organizations (A.R.S. §38-431.03 (A)(5)); or
- (vi) discussing or consulting with designated representatives of the city in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property (A.R.S. §38-431.03 (A)(7)).

Confidentiality Requirements Pursuant to A.R.S. §38-431.03 (C)(D): Any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney by agreement of the City Council, or as otherwise ordered by a court of competent jurisdiction.



CITY OF GLENDALE

Council Communication

Workshop Agenda

03/14/2006

Item No. 1

TO: Honorable Mayor and City Council

FROM: Ed Beasley, City Manager

PRESENTED BY: Sherry M. Schurhammer, Management & Budget Director

SUBJECT: **FY 2006-07 BUDGET: 1ST WORKSHOP**

Purpose

- This is a request for City Council to review the FY 2005-06 second quarter report on General Fund (GF) revenues and expenditures, as well as the FY 2006-07 GF revenue projection.
- The Police Department will present a report on its staffing needs and a proposed long-term implementation plan to systematically address meeting the community's needs.

Council Policies Or Goals Addressed

- This item incorporates the Council's strategic goals and key objectives while ensuring the city's financial stability by presenting realistic analyses about the provision of city services and future revenue expectations.

Background

- During FY 2003-04, the budget process was modified per Council's request. Some of the more significant modifications include the following:
 - Council receives quarterly presentations on GF revenues and expenditures;
 - Council receives periodic presentations throughout the year on enterprise fund issues, such as rates and fees for solid waste services and water and sewer services;
 - Council reviews the proposed capital improvement program (CIP) budget at the same time as the operating budgets for next fiscal year, as evidenced by the inclusion of CIP operating and maintenance supplementals as part of the operating budget process; and
 - Council reviews all supplemental spending requests as part of the operating budget process.

- Future budget workshops are scheduled as follows:
 - March 21, 8:30 a.m. – 5:00 p.m.
 - March 28, 1:30 p.m. – 5:00 p.m.
 - April 4, 8:30 a.m. – 12:00 p.m.
 - April 11, 1:30 p.m. – 5:00 p.m.
- The GF's second quarter revenue budget and actuals are as follows (in 000s):

	<u>FY 2005-06 Budget</u>	<u>FY 2005-06 Actuals</u>
City Sales Tax	\$ 27,827	\$ 29,349
State Income Tax	\$ 9,865	\$ 11,455
State Sales Tax	\$ 9,204	\$ 11,039
State Motor Vehicle In-Lieu	\$ 4,433	\$ 5,098
Highway User Revenue Funds	\$ 7,587	\$ 8,046
Primary Property Tax	\$ 1,840	\$ 1,969
All Other	<u>\$ 12,734</u>	<u>\$ 14,743</u>
TOTAL	\$ 73,490	\$ 81,699

- As the preceding list shows, FY 2005-06 second quarter GF revenue receipts are almost \$8.2 million, or 11% more than budgeted.
- City sales tax receipts account for almost 38% of the city's total GF revenue budget.
- City sales tax collections for the second quarter came in better than expected, with actuals exceeding budget by \$1.5 million, or 5.5%.
- FY 2004-05 city sales tax collections for the second quarter were almost \$26.3 million. Therefore, FY 2005-06 collections of over \$29.3 million are almost \$3.1 million, or almost 12%, ahead of FY 2004-05 second quarter collections.
- State-shared revenues account for 32% of the city's total GF revenue budget.
- State-shared revenue collections for the second quarter were nearly \$27.6 million, an amount that is almost \$4.1 million, or 17%, more than expected. Each of the three components of state-shared revenues performed very well, as the following detailed information shows:
 - State income tax collections were almost \$1.6 million, or 16%, ahead of budget;
 - State sales tax collections were over \$1.8 million, or almost 20%, ahead of budget; and
 - Motor vehicle in lieu collections were more than \$665,000, or 15%, ahead of budget.
- FY 2004-05 state-shared collections for the second quarter were over \$24.2 million. Therefore, FY 2005-06 collections of nearly \$27.6 million are \$3.3 million, or almost 14%, ahead of FY 2004-05 second quarter collections.

- Highway User Revenue Funds (HURF) are revenues commonly known as the gas tax although there are several additional transportation related fees that comprise this revenue source. This revenue source exceeded the FY 2005-06 second quarter budget by \$460,000, or 6%.
- There is a notable one-time source of revenue reflected in the FY 2005-06 second quarter actuals. The sale of parcels at the Northern Crossing development generated approximately \$853,000 through the second quarter.
- The FY 2005-06 second quarter budget and actuals for the GF operating and pay-as-you-go (PAYGO) capital expenditures are as follows (in 000s):

	<u>FY 2005-06 Budget</u>	<u>FY 2005-06 Actuals</u>
GF Salaries/Benefits	\$ 49,683	\$ 46,999
GF Non-Personnel	\$ 26,799	\$ 22,255
GF Debt Service (leases)	\$ 2,403	\$ 2,803
PAYGO Capital	<u>\$ 3,984</u>	<u>\$ 1,024</u>
TOTAL	\$ 82,869	\$ 73,081

- Salary savings for the second quarter of FY 2005-06 totaled almost \$2.7 million.
- Non-salary savings for the second quarter of FY 2005-06 totaled over \$4.5 million.
- At the end of the second quarter of FY 2005-06, the budget-basis GF fund balance was just over \$61.1 million.

FY 2006-07 REVENUE PROJECTION

- The starting point for the FY 2006-07 GF ongoing revenue projection of \$165.7 million is the FY 2005-06 GF ongoing revenue estimate of \$158.9 million. This FY's estimate of \$158.9 million is primarily based on the revenue pace of actuals received through the second quarter.
- The economy continues to grow robustly as evidenced by the city's collections through the first six months of the current FY. Actuals received through the second quarter of FY 2005-06 exceeded the GF revenue budget by \$8.2 million or 11%.
- By the end of FY 2005-06, we expect GF ongoing revenues to total \$158.9 million (excludes one-time revenue of \$853K). This amount is almost \$12 million more than the FY 2005-06 GF revenue budget of almost \$147 million, and \$12.2M more than the FY 2004-05 GF ongoing revenue actuals of \$146.7 million
- Another way to look at the reasonableness of the FY 2005-06 GF ongoing revenue estimate of \$158.9 million is to compare it to the collections in FY 2004-05.

- When compared to FY 2004-05 collections, current FY city sales tax collections are up almost \$3.1 million or almost 12% over collections through the second quarter of FY 2004-05.
- State-shared revenues are also doing very well, coming in \$3.3 million or almost 14% ahead of the same time period in FY 2004-05.
- The FY 2005-06 estimate of \$158.9 million is \$12.2 million more than the GF ongoing revenue actuals of \$146.7 million. The six-month pace of collections this FY clearly demonstrates that the city is on its way to meeting this FY's estimate of \$158.9 million.
- For FY 2006-07, the consensus among experts on the Arizona economy, including Marshall Vest at the University of Arizona, is that the growth we are currently experiencing will continue for the foreseeable future, fueled by continued population growth, healthy wage and other income growth, continued job creation, and continued appreciation in housing prices.
- The GF ongoing revenue projection for FY 2006-07 is almost \$165.7 million. This is about 4.3% or \$6.8 million more than the FY 2005-06 estimate of \$158.9 million. This is a prudent and reasonable estimate of overall growth given the robust growth Glendale has experienced in ongoing GF revenues.
- The following table reflects Glendale's ongoing GF revenue actuals since FY 2001-02. Glendale experienced 4.9% growth in ongoing GF revenues from FY 2001-02 to FY 2002-03 despite the economic downturn that affected the nation's economy after the terrorist attacks in September 2001. The growth Glendale experienced at that time is higher than the projected increase from FY 2005-06 to FY 2006-07 that is shown below.

Fiscal Year	Ongoing Actuals (1x revenues excluded)	Percent Change From Prior FY
2001-02	\$116.5M	--
2002-03	\$122.2M	4.9%
2003-04	\$138.3M	13.2%
2004-05	\$146.7M	6.1%
2005-06	\$158.9M	8.3%
2006-07	\$165.7M	4.3%

FY 2006-07 City Sales Tax Projection

- For FY 2006-07 city sales tax revenue, we assumed a growth rate of about 5.9% over this FY's estimate of \$58.7 million, for a FY 2006-07 projection of almost \$62.2M.
- This rate of growth in aggregate retail sales is in line with the experts' prognostications. For example, the governor's budget is assuming a growth rate of 8.5% over this FY's estimate for aggregate retail sales. Marshall Vest at the University of Arizona is forecasting 6.3% growth for the Phoenix metro area and 6.8% growth rate for Arizona as a whole for calendar year 2006.
- When compared to the actual growth in city sales tax receipts that Glendale has experienced over the past several FYs, the 5.9% assumed increase is reasonable.
- The following table shows that Glendale experienced 5.1% growth in ongoing GF revenues from FY 2001-02 to FY 2002-03 despite the economic downturn that affected the nation's economy after the terrorist attacks in September 2001. The growth Glendale experienced at that time is only slightly lower than the projected increase from FY 2005-06 to FY 2006-07 shown in the table below.

Fiscal Year	City Sales Tax Receipts (rounded)	Percent Change From Prior FY
2001-02	\$41.4M	--
2002-03	\$43.5M	5.1%
2003-04	\$49.8M	14.5%
2004-05	\$52.5M	5.4%
2005-06	\$58.7M	11.8%
2006-07	\$62.2M	5.9%

FY 2006-07 State-Shared Revenue Projection

- To develop the FY 2006-07 revenue projection, we took a conservative, prudent approach. The FY 2005-06 estimate is approximately \$54.9 million, or almost \$5.2 million more than the state-shared revenue actuals of \$49.7 million for FY 2004-05.
- The city is clearly on the way to attaining this estimate as evidenced by collections through the second quarter. By the end of the second quarter, current FY collections totaled nearly \$27.6 million. This is \$3.3 million, or almost 14%, ahead of FY 2004-05 second quarter collections.

- For state-shared income tax, we started with an estimate the Arizona League of Towns and Cities provided for FY 2006-07 income tax revenue to be distributed to the cities. For Glendale, that figure is almost \$26.8M. From this figure, we deducted \$1.8M to derive an FY 2006-07 projection of almost \$25M.
- For state sales tax, we started with the FY 2005-06 estimate of \$21.9M and increased it by 5.9% (which is the increase we are projecting for city sales tax revenues) to get almost \$23.2M. From this figure, we deducted \$1.3M to derive an FY 2006-07 projection of \$21.9M.
- For HURF revenues, we started with the FY 2005-06 estimate of almost \$16.5M and increased it by 3% to get almost \$17M. We used the more conservative 3% growth rate because of this source's history of more moderate growth over the past several years. From the figure of almost \$17M we deducted \$1.1M to derive a FY 2006-07 projection of \$15.8M.
- Motor vehicle in lieu revenue is distributed based on a municipality's population in relation to the total incorporated population of the county. This revenue source varies because it is tied to the value of the vehicle. Therefore, we assumed just a minor increase of 1.4% over this FY's estimate.

Community Benefit

- Glendale's budget is an important financial, planning and public communication tool. It gives residents and businesses a clear and concrete view of the city's direction for public services, operations and capital facilities and equipment. It also provides the community with a better understanding of the city's ongoing needs for stable revenue sources to fund public services, ongoing operations and capital facilities and equipment.
- The budget provides Council, residents and businesses with a means to evaluate the city's financial stability.

Public Input

- All budget workshops are open to the public and are posted publicly per state requirements.

Direction/Policy Guidance

Today's workshop is for information only. Decisions on the proposed budget will not be requested until the final balancing budget workshop, scheduled for April 11, 2006.